The California Endowment and Subsidiary

(A California nonprofit public benefit corporation)

Consolidated Financial Statements

March 31, 2019 and 2018

The California Endowment and Subsidiary
(A California nonprofit public benefit corporation)
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March 31, 2019 and 2018

Report of Independent Auditors

To the Board of Directors of The California Endowment

We have audited the accompanying consolidated financial statements of The California Endowment (the "Endowment"), which comprise the consolidated statements of financial position as of March 31, 2019 and March 31, 2018, and the related consolidated statements of activities, and consolidated statements of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Endowment's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The California Endowment as of March 31, 2019 and March 31, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 2 to the consolidated financial statements, the Endowment adopted ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, on April 1, 2018. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

July 25, 2019

The California Endowment and Subsidiary
(A California nonprofit public benefit corporation)
Consolidated Statements of Financial Position
March 31, 2019 and 2018

(in thousands of dollars)		2019		2018
Assets				
Cash and cash equivalents	$	32,907	$	31,072
Investments		3,639,281		3,653,880
Program-related investments, net		49,491		44,893
Other assets		1,619		1,405
Deferred tax assets		-		76
Property and equipment, net		85,408		87,826
Total assets	$	3,808,706	$	3,819,152
Liabilities and Net assets without donor restrictions				
Liabilities				
Accounts payable and other liabilities	$	11,537	$	12,796
Grants payable, net		97,371		73,792
Accrued post retirement obligation		1,820		352
Deferred tax liability		2,836		-
Total liabilities		113,564		86,940
Net assets without donor restrictions		3,695,142		3,732,212
Total liabilities and net assets	$	3,808,706	$	3,819,152

The accompanying notes are an integral part of these consolidated financial statements.

The California Endowment and Subsidiary
(A California nonprofit public benefit corporation)
Consolidated Statements of Activities
Years Ended March 31, 2019 and 2018

(in thousands of dollars)	2019	2018
Investment return		
Net gain on investments	$ 179,990	$ 354,119
Program-related investment Interest and other income	4,526	4,603
Total income	184,516	358,722
Expenses		
Grants awarded	164,189	167,851
Direct charitable expenses	17,369	22,615
Program operating expenses	25,891	22,070
General and administrative expenses	5,806	9,132
Program-related investment expenses	466	3,403
Interest expense	60	-
Tax provision		
Current	4,489	5,319
Deferred	2,812	748
Total expenses	221,082	231,138
Change in net assets without donor restrictions before minimum pension liability adjustment	(36,566)	127,584
Minimum pension liability adjustment	(504)	1,081
Change in net assets without donor restrictions after minimum pension liability adjustment	(37,070)	128,665
Net assets without donor restrictions		
Beginning of year	3,732,212	3,603,547
End of year	$ 3,695,142	$ 3,732,212

The accompanying notes are an integral part of these consolidated financial statements.

The California Endowment and Subsidiary
(A California nonprofit public benefit corporation)
Consolidated Statements of Cash Flows
Years Ended March 31, 2019 and 2018

(in thousands of dollars)	**2019**	**2018**
Cash flows from operating activities		
Change in net assets without donor restrictions	$ (37,070)	$ 128,665
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities		
Net realized and unrealized gain on investments	(163,314)	(333,989)
Dividends, interest, and other investment income, net of fees	(20,795)	(24,756)
Amortization of program-related investment discount	(2,845)	(3,029)
Depreciation on property and equipment	3,391	3,054
Provision for loss and discount on program-related investments	533	4,709
Net periodic pension cost	964	1,066
Change in operating assets and liabilities		
Program-related investments	(2,286)	(7,230)
Other assets	(214)	2,885
Accrued post retirement obligation	504	(1,081)
Accounts payable and other liabilities	(414)	1,416
Grants payable	23,579	30,627
Deferred taxes	2,912	649
Net cash used in operating activities	(195,055)	(197,014)
Cash flows from investing activities		
Purchase of property and equipment	(972)	(3,431)
Purchases of investments	(343,263)	(389,410)
Proceeds from sales of investments	541,125	579,639
Net cash provided by investing activities	196,890	186,798
Cash flows from financing activities		
Proceeds from line of credit borrowing	20,000	-
Repayment of line of credit borrowing	(20,000)	-
Net cash (used in) provided by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	1,835	(10,216)
Cash and cash equivalents		
Beginning of year	31,072	41,288
End of year	$ 32,907	$ 31,072
Supplemental disclosures of cash flow information		
Cash paid during the year for federal excise taxes	$ 4,446	$ 3,600
Cash paid during the year for interest	60	-
Cash paid during the year for agency transactions	200	-
Noncash investing activities	(5,907)	17,878

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

The California Endowment ("The Endowment"), a California non-profit public benefit corporation, is a private foundation that began operations in May 1996. The Endowment's mission is to expand access to affordable, quality health care for underserved individuals and communities and to promote fundamental improvements in the health status of all Californians.

In May 2009, 800 N. Main LLC (the "LLC") was organized and operates for charitable purposes described in section 501(c)(3) of the Internal Revenue Code of 1986 and sections 214 and 23701h of the California Revenue and Taxation Code. The LLC operates exclusively for the benefit of The Endowment, with The Endowment as the sole member of the LLC. The LLC holds title to land located adjacent to The Endowment's premises.

The Endowment and the LLC are consolidated for financial statement presentation. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of funds held in a commercial checking account and money market funds used for operating expenses. Cash also includes $423,000 of restricted use funds for March 31, 2019, in connection with certain agency transactions as discussed in Note 9.

Investments

Investments in publicly traded securities and government bonds are valued using quoted market prices. Investments in fixed income securities are valued based on relevant broker quotes, observable market prices for similar securities or discounted cash flows. Investments in mutual fund and hedge fund shares are valued using net asset value per share. Derivatives are used to hedge risks of (or gain exposure to) interest rates, foreign currencies, equities or commodities and are recorded at fair value using the value of the underlying asset. Changes in fair value are recorded in the Consolidated Statements of Activities.

Long only commingled funds, hedge funds, buyout funds, venture capital and other limited partnership interests are typically illiquid and not publicly listed or traded. The Net Asset Value ("NAV") is used as a practical expedient for fair value of all investments which do not have readily determinable fair values. Such valuations are generally determined by the partnerships' general partners, who must follow the valuation guidelines, such as appraisals and comparable public company trade data, stipulated in the respective limited partnership agreements. The Endowment reviews and evaluates the values provided by the investments' managers and assesses the valuation methods and assumptions used. Management may make specific or general valuation reserves based on portfolio analysis. Investment sales and purchases are recorded on trade date, which may result in receivables and payables on trades that have not yet settled at the financial statement date.

Dividend income is recorded on the ex-dividend date, and interest income is recorded as earned on an accrual basis. Unrealized gains and losses are recorded for changes in the difference between the recorded costs of the investments and the fair value of the investments at the financial statement date.

Cash equivalents categorized as investments include short-term investment funds, commercial paper and U.S. treasury bills that may be used by managers for collateral and pending trades with original or remaining maturities of three months or less at time of purchase and not immediately available for the operating expense of The Endowment.

Property and Equipment

Property and equipment consist of buildings, land, leasehold improvements, furnishings, equipment, and software for The Endowment's offices and are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 7 years for furnishings, equipment and software, 15 years for machinery, 39 years for buildings, and the shorter of 10 years or the related lease term for leasehold improvements. When items are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any profit or loss on such retirements or disposal is recognized in the year of disposal.

Grants Awarded

Unconditional grants awarded are recognized as an expense in the period in which they are approved. Grants payable in future years are discounted to present value using rates effective at the time the grants were awarded ranging between 1.48% to 2.86% for 2019 and 1.20% to 2.18% for 2018. Grants awarded that are conditioned on future uncertain events are expensed when those conditions are substantially met. There were no conditional grants outstanding at March 31, 2019 and 2018.

Direct Charitable and Program Operating Expenses

Direct charitable expenses pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by The Endowment. The Endowment's direct charitable activities consist of the administration and operation of conference centers in Los Angeles, Oakland and Sacramento, in addition to program evaluation, content creation and marketing on health issues, policy and advocacy work, health-related research, publishing, and dissemination of research. Program operating expenses pertain to the general grant making activities of The Endowment, such as reviewing grant applications, awarding, monitoring, and evaluating grants. Certain program operating expenses are allocated based on employee ratios and estimates made by management.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Endowment uses NAV to determine the fair value of all the investments which do not have a readily determinable fair value. Such value generally represents the limited partner's proportionate share of the investment partnerships as reported by their general partners. Accordingly, the value of the investment in these limited partnerships is generally increased by additional contributions and the limited partner's share of net earnings from the underlying investments and decreased by distributions and the limited partner's share of net losses from the underlying investments.

Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

- Market Approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- Cost Approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- Income Approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level 1 includes listed equities held in the name of The Endowment.

Level 2 Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

Other assets include prepayments of excise and unrelated business income tax and deferred compensation plan investments which are reported at fair value.

Sensitivity of Fair Value Measurements to Changes in Significant Unobservable Inputs
The Endowment considers unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following is a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each individual relationship described below, the inverse relationship would also generally apply.

Market Inputs
The significant unobservable inputs used in the fair value measurement of The Endowment's investments include the following inputs: industry multiples (primarily based on revenue or Earnings Before Income Tax, Depreciation and Amortization "EBITDA"), public comparables, transactions in similar instruments, discounted cash flow techniques, and third party appraisals. Managers also consider changes in the outlook for relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include market and transaction multiples, discount rates, long-term growth rates, and capitalization rates. For equity instruments with debt-like features, inputs include market yields, current performance and recovery assumptions, and duration. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurements, respectively.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases,* as amended. The new guidance requires the recognition of lease assets and lease liabilities by lessees for those leases otherwise classified as operating leases under previous Generally Accepted Accounting Principles ("GAAP"). The new guidance is effective for The Endowment beginning April 1, 2020, with early adoption permitted. The Endowment does not expect the new guidance to have a material impact on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, amending ASC 958. This update changes the presentation of certain information in the financial statements and footnote disclosures of not-for-profit ("NFP") entities. The update also changes the way that NFP entities classify net assets. The Endowment adopted this new guidance with an effective date of April 1, 2018. The effects of adopting this guidance are addressed in Notes 14 and 15, the Consolidated Statements of Financial Position and the Consolidated Statements of Activities have been adjusted to conform to this new presentation.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This update addressed various classification issues related to the statement of cash flows. The new guidance is effective for The Endowment beginning April 1, 2019, with early adoption permitted. The Endowment does not expect the new guidance to have a material impact on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This guidance clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. Entities will be required to disclose the nature of the restrictions, as well as reconcile the totals in the statement of cash flows to cash, cash equivalents, restricted cash, and restricted cash equivalents on the balance sheet when these are shown in more than one line item. The new guidance is effective for The Endowment beginning April 1, 2019, with early adoption permitted. The Endowment adopted this new guidance with an effective date of April 1, 2017 and it did not have a material impact to its financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that an employer report the service cost component of pension costs in the same line item as employee compensation costs within operating income. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income form operations, and will not be eligible for capitalization. The new guidance is effective for The Endowment beginning April 1, 2019, with early adoption permitted. The Endowment does not expect the new guidance to have a material impact on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This update clarifies the definition of an exchange transaction. As a result, not-for-profit entities (NFPs) will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). An accommodation ("simultaneous release" option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. The new guidance is effective for The Endowment beginning April 1, 2019, with early adoption permitted. The Endowment does not expect the new guidance to have a material impact on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which requires nonpublic entities to report transfers in and out of Level 3 of the fair value hierarchy, as well as purchases and issue of Level 3 assets and liabilities. Under the new guidance, for investments in certain entities that calculate net asset value, the requirement to disclose the estimate of period of time over which the underlying assets might be liquidated is replaced by the disclosure of that time period if the investee has announced the timing publicly. The new guidance is effective for The Endowment beginning April 1, 2020, with early adoption permitted. The Endowment does not expect the new guidance to have a material impact on its financial statements.

Reclassifications
Certain prior year amounts have been reclassified to conform to current year presentation.

3. Concentration of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments, which potentially subject The Endowment to concentrations of credit risk, consist primarily of cash and cash equivalents; investments; and program related investments.

The Endowment maintains its cash and cash equivalents primarily with its custodian bank, Bank of New York Mellon. The cash and cash equivalent balances are generally not federally insured; however, The Endowment has not experienced any losses in such positions and believes that they do not represent any significant credit risk.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. The Endowment will be exposed to credit risk to parties with whom it trades and will also bear the risk of settlement default. The Endowment minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges where applicable. The Endowment could lose money if the issuer or guarantor of an investment is unable or unwilling to make timely payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings. Due to the level of risk associated with certain investment securities, it is possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the value of The Endowment's investments and total net assets balance.

With respect to program-related investments, The Endowment routinely assesses the financial strength of its debtors and believes that the related credit risk exposure is limited and appropriately reserved for.

4. Investments

At March 31, 2019 and 2018, investments consist of the following at fair value:

(in thousands of dollars)	**2019**	**2018**
Commercial paper and U.S. treasury bills	$ 26,964	$ 32,281
Government, corporate and asset-backed obligations	286,139	288,604
Equities	1,281,631	1,329,443
Private equity, real assets, real estate and hedge funds	2,044,547	2,003,552
Total investments	$ 3,639,281	$ 3,653,880

Net realized and unrealized gains and losses on investments are reflected in net gain on investments on the Consolidated Statements of Activities. The net gain (loss) on The Endowment's investment portfolio for the years ended March 31, 2019 and 2018 consists of the following:

(in thousands of dollars)	**2019**	**2018**
Net realized gain	$ 203,469	$ 219,744
Net unrealized (loss) gain	(40,155)	114,245
Total gains	$ 163,314	$ 333,989

The Endowment has entered into certain agreements with various investment funds to make future investments in such funds. As of March 31, 2019, the unfunded commitments related to these investments totaled $661,240,000.

The investment goal of The Endowment is to maintain or grow its asset size and spending power in real (inflation adjusted) terms with risk at a level appropriate to The Endowment's program objectives. The Endowment diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies. As a general practice, financial assets of The Endowment are managed by external investment management firms selected by The Endowment. All financial assets of The Endowment are held in custody by BNY Mellon except for assets invested with partnerships and commingled funds, which have separate arrangements related to their legal structure.

Derivative Instruments

The Endowment transacts in a variety of derivative instruments including futures, swaps and options primarily for trading purposes with each instrument's primary risk exposure being interest rate, credit, currency, equity or commodity risk. The fair value of these derivative instruments is included in the investments line item in the consolidated statements of financial position with changes in fair value included in as net realized and unrealized gain (loss) on investments within the Consolidated Statements of Activities.

The use of financial derivative instruments in its investment program is appropriate and customary for the investment strategies employed by the Endowment. These instruments do involve investment and counterparty risk in amounts greater than what are reflected in The Endowment's consolidated financial statements, however, management does not anticipate that losses, if any, from such instruments would materially affect the financial position of The Endowment.

As of March 31, 2019 and 2018, The Endowment held derivative positions of $6,174,000 and $15,143,000, respectively, which are included in investments on the consolidated statements of financial position. The Endowment recognized a realized loss of $152,000 and a realized loss of $105,000 on foreign exchange contract derivatives for the years ended March 31, 2019 and 2018, respectively. Such amounts are included in the net realized and unrealized gain (loss) on investments in the Consolidated Statements of Activities.

5. Fair Value

The following table summarizes the valuation of The Endowment's investments by ASC 820 fair value hierarchy levels as of March 31, 2019:

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Cash equivalents	$ 22,284	$ 4,680	$ -	$ -	$ 26,964
Equities					
Domestic	126,259	-	-	123,640	249,899
International	83,237	-	-	176,137	259,374
Emerging markets	6	-	-	215,095	215,101
Global	88,267	-	-	468,990	557,257
Fixed income					
Corporates	-	43,353	1,332	-	44,685
Mortgage/asset backed securities	-	142,267	-	-	142,267
Government related	63,429	9,075	-	-	72,504
Commingled funds	10,300	-	-	-	10,300
Municipal bonds	-	16,383	-	-	16,383
Hedge funds					
Relative value	-	-	-	165,293	165,293
Absolute return	-	-	-	399,956	399,956
Event driven	-	-	-	171,463	171,463
Global macro	-	-	-	70,401	70,401
Private equity					
Venture capital	-	-	-	223,936	223,936
Buyout	-	-	-	457,561	457,561
Real estate	-	-	-	252,843	252,843
Real assets	-	-	-	303,094	303,094
	$ 393,782	$ 215,758	$ 1,332	$ 3,028,409	$ 3,639,281

The following table summarizes The Endowment's Level 3 reconciliation by ASC 820 standards as of March 31, 2019:

(in thousands of dollars)	Beginning Balances April 1, 2018	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases and Other Acquisitions	Sales and Other Dispositions	Transfers Into Level 3	Transfers (Out) of Level 3	Ending Balances March 31, 2019
Fixed income								
Corporates	$ 6,483	$ (60)	$ 14	$ 896	$ (6,001)	$ -	$ -	$ 1,332
	$ 6,483	$ (60)	$ 14	$ 896	$ (6,001)	$ -	$ -	$ 1,332

The following table summarizes the valuation of The Endowment's investments by ASC 820 fair value hierarchy levels as of March 31, 2018:

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total
Cash equivalents	$ 20,995	$ 11,286	$ -	$ -	$ 32,281
Equities					
Domestic	101,440	1,959	-	215,430	318,829
International	83,961	-	-	195,429	279,390
Emerging markets	43,767	-	-	193,444	237,211
Global	76,530	-	-	417,482	494,012
Fixed income					
Corporates	-	38,230	6,483	-	44,713
Mortgage/asset backed secu	-	181,013	-	-	181,013
Government related	27,601	7,859	-	-	35,460
Commingled funds	-	10,832	-	-	10,832
Municipal bonds	-	16,586	-	-	16,586
Hedge funds					
Relative value	-	-	-	258,285	258,285
Absolute return	-	-	-	298,076	298,076
Event driven	-	-	-	205,676	205,676
Global macro	-	-	-	68,820	68,820
Private equity					
Venture capital	-	-	-	200,750	200,750
Buyout	-	-	-	436,074	436,074
Real estate	-	-	-	258,945	258,945
Real assets	-	-	-	276,926	276,926
	$ 354,294	$ 267,765	$ 6,483	$ 3,025,337	$ 3,653,880

The following table summarizes The Endowment's Level 3 reconciliation by ASC 820 standards as of March 31, 2018:

(in thousands of dollars)	Beginning Balances April 1, 2017	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases and Other Acquisitions	Sales and Other Dispositions	Transfers Into Level 3	Transfers (Out) of Level 3	Ending Balances March 31, 2018
Fixed income								
Corporates	$ 8,387	$ 18	$ (104)	$ 3,144	$ (4,962)	$ -	$ -	$ 6,483
	$ 8,387	$ 18	$ (104)	$ 3,144	$ (4,962)	$ -	$ -	$ 6,483

Transfers out of Level 3 include investments which have been reclassified to Level 2 due to changes in pricing inputs that became readily available for certain Level 2 securities. Transfers into Level 3 include investments which have been reclassified from Level 2 due to changes in pricing inputs that became unavailable during the year. Transfer amounts are based on the fair value as of the date of the change in pricing inputs that caused the transfer.

The amount of unrealized losses related to Level 3 investments that were held at March 31, 2019 and 2018 was ($58,000) and ($47,000) respectively.

The Endowment uses NAV as a practical expedient to determine the fair value of all the underlying investments, which (a) do not have readily determinable fair values and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies by major category as of March 31, 2019:

(in millions of dollars)	**Strategy**	**Fair Value**	**Remaining Life**	**Unfunded Commitments**	**Redemption Terms**	**Redemption Restrictions**
Private equity*	Venture and buyout, in the U.S. and international	$ 681.5	1 to 15 years	$ 259.0	N/A	N/A
Real estate*	Real estate primarily in the U.S.	$ 252.8	1 to 15 years	$ 244.7	N/A	N/A
Real assets*	Natural resources primarily in the U.S.	$ 303.1	1 to 15 years	$ 157.5	N/A	N/A
Hedge funds-Absolute returns	Global macro, event driven, long/short, relative value hedge funds	$ 807.1	N/A	$ -	Ranges between monthly redemption to a redemption with a 2-year lock up period	Some funds limit redemption to 25% of capital per period
Commingled funds-Equities	Long-only equities	$ 983.9	N/A	$ -	Ranges between daily redemption to a redemption every 3 years	1 fund limits redemption to a maximum of 33% of capital per year
		$ 3,028.4		$ 661.2		

* These investments are in private fund structures with no ability to be redeemed.

The Endowment uses NAV as a practical expedient to determine the fair value of all the underlying investments, which (a) do not have readily determinable fair values and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies by major category as of March 31, 2018:

(in millions of dollars)	Strategy	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity*	Venture and buyout, in the U.S. and international	$ 636.8	1 to 15 years	$ 269.1	N/A	N/A
Real estate*	Real estate primarily in the U.S.	$ 258.9	1 to 15 years	$ 181.3	N/A	N/A
Real assets*	Natural resources primarily in the U.S.	$ 276.9	1 to 15 years	$ 203.0	N/A	N/A
Hedge funds- Absolute returns	Global macro, event driven, long/short, relative value hedge funds	$ 830.9	N/A	$ -	Ranges between monthly redemption to a redemption with a 2-year lock up period	Some funds limit redemption to 25% of capital per period
Commingled funds- Equities	Long-only equities	$ 1,021.8	N/A	$ -	Ranges between daily redemption to a redemption every 3 years	1 fund limits redemption to a maximum of 33% of capital per year
		$ 3,025.3		$ 653.4		

* These investments are in private fund structures with no ability to be redeemed.

6. Program-Related Investments

The Endowment invests a portion of its funds in projects that advance its philanthropic purposes by providing non or low-interest bearing loans to certain non-profit organizations. Loans are either in the form of direct loans or loan participations. At March 31, 2019 and 2018, these loans including interest receivable totaled $49,491,000 and $44,893,000, respectively, and have been recorded net of potentially uncollectible amounts of $2,685,000 and $2,688,000 at March 31, 2019 and 2018, respectively, and net of discount of $12,235,000 and $14,537,000 at March 31, 2019 and 2018, respectively. The loans have stated rates of 0% - 7.74% with effective rates of 2% - 11.0% based on the credit risk of these organizations. The loans have maturities ranging from March 2020 through May 2031 and are expected to be repaid in various installments over the terms. Loans are individually monitored to determine to determine net realizable value based on an evaluation of recoverability. Net realizable value approximates fair value. The table below represents the expected future repayments from these organizations based on the terms of the loans:

(in thousands of dollars)

Years Ending March 31,		
2020	$	6,661
2021		7,500
2022		4,293
2023		2,942
2024		1,036
Thereafter		38,720
PRI Receivable		61,152
Interest Receivable		3,259
Less: Discount and reserves for uncollectible amounts		(14,920)
Program related investments, net	$	49,491

As of March 31, 2019 and 2018, The Endowment had an unfunded commitment of $11,233,000 and $7,333,000, respectively, related to certain program-related investments.

7. Property and Equipment

At March 31, 2019 and 2018, property and equipment consist of the following:

(in thousands of dollars)		**2019**		**2018**
Building, easement and leasehold improvements	$	86,314	$	86,061
Land		23,599		23,599
Furnishings and equipment		12,494		11,615
Software		997		788
Construction-in-progress		644		1,671
Total property and equipment		124,048		123,734
Less: Accumulated depreciation		(38,640)		(35,908)
Total property and equipment less depreciation	$	85,408	$	87,826

Depreciation expense was $3,391,000 and $3,054,000 for the years ended March 31, 2019 and 2018, respectively.

8. Grants Payable

At March 31, 2019 and 2018, grants payable are as follows:

(in thousands of dollars)	2019	2018
Amounts due in		
Less than one year	$ 69,296	$ 61,640
One year to five years	29,512	12,477
Gross grants payable	98,808	74,117
Less: Discount to present value	(1,437)	(325)
Grants payable, net	$ 97,371	$ 73,792

The Endowment made grant payments of approximately $139,705,000 and $136,551,000 for the years ended March 31, 2019 and 2018, respectively.

9. Commitments and Contingencies

The Endowment leases its regional office facilities under various agreements. Rental expense was $713,000 and $586,000 for the years ended March 31, 2019 and 2018, respectively. Future minimum rental payments related to noncancelable operating leases as of March 31, 2019, are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2020	$ 589
2021	242
Total minimum future rentals	$ 831

The Endowment is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of such matters will not have a material adverse effect on the financial position of The Endowment.

In September 2011, The Endowment and members of the Coalition Organizations (the “Coalition”) reached an agreement whereby The Endowment agreed to receive proceeds from a settlement benefiting the Coalition to be used toward supporting a community-serving health and wellness center, community health promotion, affordable housing, small business support and jobs training opportunities for local residents and at-risk youth. The Coalition is comprised of various non-profit corporations. Under the terms of the agreement, The Endowment agreed to receive the settlement proceeds and then distribute such funds as directed by the members of the Coalition.

Since the inception of the agreement through March 31, 2019, The Endowment has received from the Coalition $4,253,000 in cash of which $3,830,000 has been expended. At March 31, 2019, The Endowment's obligation under the terms of the agreement was $423,000.

10. Credit Facility

In March 2011, The Endowment entered into a Commercial Credit Agreement ("LOC") with Union Bank, N.A that had a credit limit of $30 million with an interest rate of LIBOR plus 100 basis points on all outstanding balances. The Endowment and Union Bank agreed to amend and restate the LOC in May 2014 and again in May 2015. Under the latest agreement, the committed revolving loan was reduced to $20 million.

All outstanding balances on the loans incur an interest rate either at LIBOR plus 100 basis points or at a reference rate as announced by Union Bank, at The Endowment's option. No securities have been pledged to secure the LOC. In April 2016, the termination date of the amended and restated LOC was extended to August 2016. In September 2016, the LOC was further extended to September 2019.

In December 2018, The Endowment drew $20,000,000 from the LOC and incurred interest expense of $60,000 through January 2019. The full outstanding principal balance plus accrued interest was paid in January 2019 prior to fiscal year ended March 31, 2019.

As of March 31, 2019, The Endowment was in compliance with all covenants related to the line of credit.

11. Taxes

The Endowment is exempt from federal income taxes under Internal Revenue Code (IRC) section 501(c)(3). The Endowment is subject to federal excise taxes imposed on private foundations at 2% or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal tax law, which includes interest and dividend income, and realized gains, net of investment expenses, among other items. Deferred excise taxes arise primarily from unrealized gains on investments and are calculated at the effective rate expected to be paid by The Endowment.

The Endowment is also subject to income tax on unrelated business income. An operating loss carry forward of approximately $51,872,000 is available to offset future taxable income of The Endowment for a period ranging through the year ending March 31, 2028 through March 31, 2037.

The components of the deferred tax asset and liability recognized in the consolidated statements of financial position were as follows as of March 31:

(in thousands of dollars)	2019	2018
Deferred tax asset	$ 14,515	$ 18,230
Deferred excise taxes payable	(17,351)	(18,154)
Total deferred taxes	$ (2,836)	$ 76

The components of the provision (benefit) for federal and state income taxes recognized in the Consolidated Statements of Activities for the years ended March 31, 2019 and 2018 were as follows:

(in thousands of dollars)		2019		2018
Current excise tax provision	$	4,489	$	5,319
Deferred excise tax (benefit) provision		(803)		2,284
Deferred income tax (benefit) provision		3,615		(1,536)
Total tax provision	$	7,301	$	6,067

The Endowment believes that it has appropriate support for tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on The Endowment's consolidated statement of financial position or consolidated statement of activities.

12. Distribution Requirements

The Endowment is subject to the distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year, a minimum of 5% of the net value of noncharitable-use assets, as defined. The assets that are to be included in the 5% distribution requirement are based on average monthly balances and are exclusive of those assets deemed to be held for charitable activities or program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions.

For the period March 2013 through March 2017, The Endowment exceeded the minimum distribution requirements by $295 million. The IRC allows The Endowment to utilize all or some of this excess to meet future years' distribution requirements. Each fiscal year's excess distributions carryover expires after five years.

13. Retirement Plan

The Endowment maintains a qualified 401(k) Employee Investment Plan that provides for uniform employer contributions of one dollar for every dollar contributed by a participant up to 7% of the participant's salary deferral contribution. The Endowment's contribution to this plan for the years ended March 31, 2019 and 2018 was $1,244,000 and $1,024,000, respectively.

The Endowment has a defined benefit cash balance plan (the "Plan") covering all employees with one year of service. The Plan is entirely funded by The Endowment. Each employee's account is credited with 8% of eligible wages for each year in which employees work more than 1,000 hours, with additional credits based on age. The employees are vested 20% each year for the first two years after entering the Plan, with full vesting at the end of three years or upon reaching the age of 65 while employed by The Endowment. In addition, each employee's account is credited each year with an interest factor equal to the annual interest on 20-year Treasury bonds as of the last day of the previous Plan Year, or 5%, if higher, effective January 1, 2017. For periods prior to January 1, 2017, the Plan's minimum annual interest crediting rate was 5.25%. The change was effected by Plan amendment. At retirement, employees are paid their accumulated amount in the Plan, either as an annuity or lump sum, at their election. Upon termination of service, employees may withdraw or roll over their vested accumulated cash balance.

The benefit cost for the fiscal year ending March 31, 2020 is estimated to be $1,176,000. This benefit cost assumes no contributions in the upcoming fiscal year. The Endowment's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), plus additional amounts as deemed to be appropriate. The Plan had a total ERISA funding shortfall as of January 1, 2018 of $1,637,000 thereby requiring quarterly contributions for the 2019 plan year of $370,000. The Endowment may fulfill the quarterly contribution requirements either through cash contributions or the use of its ERISA prefunding balance.

In order to determine the expected long-term rate of return for the Plan, The Endowment considered historical performance of various asset classes, investment community forecasts, and current economic and market conditions.

The Plan's investment policy allows assets to be allocated to various asset classes, which include cash and liquid investments, income and equity investments, balanced investments, real estate and real estate trusts, sector-based, and alternative investments. The Plan's assets are invested with the goal of providing both a reasonable level of income and long-term growth of capital and income, along with achieving a broadly diversified holding of stocks and bonds.

The Plan's assets are fully invested in a variety of equity and fixed income mutual funds as of March 31, 2019 comprised of 63.30% equities, 36.17% fixed income and 0.53% cash and cash equivalents. As of March 31, 2018, the plan was invested in a collective investment trust comprised of 62.42% equities, 36.93% fixed income and 0.65% cash and cash equivalents.

The changes in accumulated postretirement benefit obligation, plan assets, and the amounts recognized in the consolidated financial statements are as follows at March 31 and for the year ended:

(in thousands of dollars)	**2019**	**2018**
Projected benefit obligation at beginning of the year	$ 18,634	$ 17,653
Service cost	1,245	1,265
Interest cost	706	658
Change in Interest crediting rate assumption	-	-
Other assumption changes	208	(185)
Actuarial (gain) loss	(42)	37
Benefits paid by employer	(573)	(794)
Projected benefit obligation at end of the year	$ 20,178	$ 18,634

(in thousands of dollars)	**2019**	**2018**
Fair value of Plan assets at beginning of the year	$ 18,282	$ 17,286
Actual return on Plan assets	649	1,790
Employer contributions	-	-
Expenses	-	-
Benefits paid	(573)	(794)
Fair value of Plan assets at end of the year	$ 18,358	$ 18,282
(unfunded) status of the plan	$ (1,820)	$ (352)

(in thousands of dollars)	**2019**	**2018**
Amounts recognized in the consolidated statements of financial position		
Assets	$ -	$ -
Liabilities	(1,820)	(352)
Net (liability)	$ (1,820)	$ (352)

(in thousands of dollars)	**2019**	**2018**
Amounts recognized in net assets without donor restrictions		
Prior service cost	$ (385)	$ (413)
Net actuarial loss	4,599	4,123
Total amounts recognized in net assets without donor restrictions	$ 4,214	$ 3,710

(in thousands of dollars)	**2019**	**2018**
Net periodic pension cost and amounts recognized in the change in net assets without donor restrictions		
Service cost	$ 1,245	$ 1,265
Interest cost	706	658
Expected return on plan assets	(1,123)	(1,062)
Amortization of prior service cost	(28)	(28)
Amortization of net loss	164	233
Net periodic pension cost	$ 964	$ 1,066

(in thousands of dollars)	**2019**	**2018**
Other changes in Plan assets and benefit obligation recognized in the change in net assets without donor restrictions		
Net (gain) loss	$ 476	$ (1,109)
Amortization of prior service cost	28	28
Change in minimum pension liability recognized in change in net assets without donor restrictions	$ 504	$ (1,081)

The estimated prior service cost and actuarial loss for the Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost during the following fiscal year are $(27,659) and $183,455, respectively.

Weighted-average assumptions used to determine benefit obligations at March 31, 2019 and 2018 are as follows:

	2019	**2018**
Discounts	3.87 %	4.00 %
Expected return on plan assets	6.50 %	6.50 %
Rate of compensation increase	5.00 %	5.00 %

Weighted-average assumptions used to determine net periodic pension costs at March 31, 2019 and 2018 are as follows:

	2019	**2018**
Discounts	4.00 %	3.94 %
Expected return on plan assets	6.50 %	6.50 %
Rate of compensation increase	5.00 %	5.00 %

The estimated future benefit payments are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2020	$ 2,407
2021	1,747
2022	936
2023	896
2024	1,034
Years 2025 through 2028	6,844

The following is a description of the valuation methodologies used for Plan assets measured at fair value. There have been no changes in the methodologies used at March 31, 2019 and 2018.

Mutual Funds: Valued at NAV of $1 per unit.

Collective Investment Trust: Units of participation may be purchased or redeemed on the valuation dates at the fair value per unit. All funds are valued in an active market on a daily basis.

The following table sets forth, by level, within the fair value hierarchy, the Plan's assets at fair value as of March 31, 2019:

(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**NAV as Practical Expendient**	**Total**
Equities	$ -	$ 11,621	$ -	$ -	11,621
Fixed Income	-	6,640	-	-	6,640
Cash and cash equivalents	97	-	-	-	97
	$ 97	$ 18,261	$ -	$ -	$ 18,358

The following table sets forth, by level, within the fair value hierarchy, the Plan's assets at fair value as of March 31, 2018:

(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**NAV as Practical Expendient**	**Total**
Equities	$ -	$ 11,411	$ -	$ -	11,411
Fixed Income	-	6,752	-		6,752
Cash and cash equivalents	119	-	-	-	119
	$ 119	$ 18,163	$ -	$ -	$ 18,282

14. Analysis of Expenses

The Endowment's expenses have been allocated between grantmaking, direct charitable and operational support activities, based on estimates made by the Endowment's management of time spent by employees on various activities. Grantmaking expenses pertain to the general grantmaking activities of the Endowment, such as reviewing proposals and awarding, monitoring and evaluating grants. Direct charitable activities represent expenses incurred for the charitable benefit of others, initiated and conducted in whole or in part by The Endowment. Operational support expenses include costs related to managing the Endowment.

The Endowment's functional expenses, displayed by natural and functional expense classification, for the year ended March 31, 2019 were as follows:

(in thousands of dollars)

	Grantmaking	Direct Charitable Activities	Operational Support	Total
Grants and Contracts for Program Activities	$ 164,189	$ 11,283	$ -	175,472
Salaries, benefits and payroll taxes	18,748	2,108	3,722	24,578
Legal and Accounting fees	402	69	7	478
Consulting and other professional fees	1,263	91	366	1,720
Depreciation	1,953	600	679	3,232
Occupancy	1,360	1,262	472	3,094
Travel, conference and meetings	1,150	584	344	2,078
IT Equip, Online Services and Software	447	821	155	1,423
Other expenses	568	551	61	1,180
	$ 190,080	$ 17,369	$ 5,806	$ 213,255

The Endowment's functional expenses, displayed by natural and functional expense classification, for the year ended March 31, 2018 were as follows:

(in thousands of dollars)

	Grantmaking	Direct Charitable Activities	Operational Support	Total
Grants and Contracts for Program Activities	$ 167,851	$ 16,414	$ -	184,265
Salaries, benefits and payroll taxes	15,244	2,274	6,307	23,825
Legal and Accounting fees	626	-	259	885
Consulting and other professional fees	1,430	594	591	2,615
Depreciation	1,538	528	636	2,702
Occupancy	1,473	1,503	610	3,586
Travel, conference and meetings	531	452	220	1,203
IT Equip, Online Services and Software	456	356	189	1,001
Other expenses	772	494	320	1,586
	$ 189,921	$ 22,615	$ 9,132	$ 221,668

15. Liquidity

The Endowment structures its financial assets to be available and liquid as its grants, general expenditures, liabilities, and other obligations become due. In addition to the available financial assets listed below, the Endowment has a line of credit agreement of $20 million which can be drawn upon to meet near-term liquidity needs. There are likely to be additional components of the Endowment's investments that may be available and liquid within one year not included in the table below. These components include certain portions of marketable alternatives, as well as return of capital from private equity, real estate and real asset holdings. Although the Endowment does not intend to spend from these investments in the normal course of business, the amounts listed below could be made available if necessary.

The following table summarizes The Endowment's financial assets available for general expenditure and grant obligations within one year of March 31, 2019:

(in thousands of dollars)	**2019**
Cash and cash equivalents	$ 32,907
Interest and dividends receivable	2,454
Investment sales receivable	97
Equities	1,011,949
Fixed income	298,192
Hedge funds	709,178
Total available financial assets	2,054,777

16. Related Parties

In September 2009, the LLC engaged The Endowment to provide various management and administrative services, equipment, supplies, and other goods and services on its behalf under an administrative services agreement. Under the terms of the agreement, The Endowment shall be compensated annually by the LLC for $1 and the agreement shall have a term of one year, with an automatic annual renewal unless otherwise terminated by either party for cause. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

The Endowment leases office space in its main building to certain tax-exempt organizations that may also be recipients of various grants awarded by The Endowment. Receivables from such leasing arrangements are not considered material and are not separately disclosed in the consolidated financial statements.

17. Subsequent Events

The Endowment has evaluated subsequent events to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated by The Endowment through July 25, 2019, the date the consolidated financial statements were available to be issued.